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From: Wessinger-Hill, JoAnne
Sent: Friday, July 30, 2021 2:39 PM
To: Hall, Roger; Grube-Lybarker, Carri; John J. Pringle, Jr.; Heather Smith; Heather Smith; Pittman, Jenny; fellerbe@robinsongray.com; fellerbe@robinsongray.com; Nelson, Jeff; DeMarco, Tracy S.; Breitschwerdt, E. Brett; jennamcgrath@paulhastings.com; billdegrandis@paulhastings.com
Cc: PSC_Contact; Besley, Sharon
Subject: RE: Hearing Exhibit ** -- (Cross Examination Exhibit No. 2 Strunk) -- DN 2020-263-E
Attachments: DEC DEP Strunk Cross Exhibit 2.PDF

Parties:

Attached is a copy of the Cross Examination Exhibit regarding the Witness on the stand.

Jo Anne

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Public Service Commission of South Carolina Orders Approving Zero Capacity Need

Proceeding	Utility	PSC Approval	Citation
1985 Avoided Cost Proceeding	SCE&G	"The Commission, after considering all the relevant facts, believes that at this time, the capacity credit for SCE&G should be zero."	*IN RE: Small Power Production and Cogeneration Facilities — Implementation of Section 210 of the Public Utility Regulatory Policies Act of 19*, Order No. 85-347, Docket No. 80-251-E (Aug. 2, 1985)
2018 Annual Review of Base Rates for Fuel Costs	SCE&G	"The Commission finds that SCE&G's proposal to set avoided capacity costs for its PR-1 and PR-2 rates at zero is reasonable at this time, in the absence of a viable alternative proposal being presented by any other party."	*IN RE: Annual Review of Base Rates for Fuel Costs for South Carolina Electric & Gas Company*, Order No. 2018-322(A), Docket No. 2018-2-E (May 2, 2018)
2019 Avoided Cost Proceeding	DEC and DEP	"Duke Witness Snider testified that DEC's projection of its first avoidable capacity need occurs in 2026, while DEP's first avoidable capacity need occurs in 2020, consistent with the Companies' 2019 IRP Update filings. … The Commission finds that DEC and DEP have appropriately identified their first avoidable capacity needs, as presented in their 2019 IRP Updates. ORS's expert Witness Horii testified that the Companies' use of the recently filed 2019 IRPs was appropriate, reasonable, and transparent, and the Commission finds merit in his testimony. … Therefore, the Commission agrees with Duke and the ORS that customers should not be required to pay solar QFs for capacity prior to the first year in which it is needed to serve system load and SCSBA's seemingly abandoned argument on this issue is rejected."	*In the Matter of: South Carolina Energy Freedom Act (H.3659) Proceeding to Establish Duke Energy Carolinas, LLC and Duke Energy Progress, LLC's Standard Offer Avoided Cost Methodologies, Form Contract Power Purchase Agreements, Commitment to Sell Forms, and Any Other Terms or Conditions Necessary (Includes Small Power Producers as Defined in 16 United States Code 796, as Amended) – S.C. Code Ann. Section 58-41-20(A)*, Order No. 2019-881(A), Docket Nos. 2019-185-E and 2019-186-E (Jan. 2, 2020).

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BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 80-251-E - ORDER NO. 85-347

August 2, 1985

IN RE:	Small Power Production and Cogeneration Facilities - Implementation of Section 210 of the Public Utility Regulatory Policies Act of 1978.	ORDER

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (hereinafter "the Commission") by way of the operation of certain provisions of Section 210 of the Public Utility Regulatory Policies Act of 1978 (hereinafter "PURPA")[1] certain rules and regulations promulgated thereunder.

Section 210 of PURPA, inter alia, directed the Federal Energy Regulatory Commission (hereinafter "the FERC") to prescribe rules designed to encourage cogeneration and small power production by requiring certain affected electrical utilities to offer both to sell electric energy to qualifying

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[1] Pub. L. 95-617, 92 Stat. 3117 et seq. 19 U.S.C. Sections 2601 et seq. (1978).

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Based on the previous discussion concerning CP&L and the rationale for the Commission's conclusion thereto, the Commission concludes that Duke Power's proposed methodology is appropriate for capacity-related costs except that such capacity credits should be paid on a twelve month basis.

(3) SCE&G - Based on its contention that it is not in a construction phase of system development, SCE&G maintains that the establishment of additional generating capacity within its assigned territory through the development of cogeneration will not at this time enable SCE&G to avoid any capacity costs.

Union Camp contends that SCE&G has planned capacity additions which are currently avoidable, and that SCE&G should pay these avoidable capacity costs to qualifying facilities.

However, as Union Camp points out, the record in this proceeding does not indicate the full extent to which SCE&G is currently avoiding capacity costs. The Commission is mindful of its previous treatment of SCE&G's capacity credit the excess capacity SCE&G currently has on its system (See, Docket No. 83-307-E, Order No. 84-142 dated March 2, 1984), and the planned additions to its system in the early 1990's (Tr., Vol. 4, p. 4).

The Commission, after considering all the relevant facts, believes that at this time, the capacity credit for SCE&G should be zero. However, based on the testimony elicited at the hearing, the Commission herein will require SCE&G to provide updated avoided cost information for the Commission's further

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BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2018-2-E – ORDER NO. 2018-322(A)

May 2, 2018

IN RE:	Annual Review of Base Rates for Fuel Costs for South Carolina Electric & Gas Company	))	AMENDED ORDER APPROVING FUEL COSTS

I. INTRODUCTION

This Order amends Commission Order No. 2018-322 to correct two typographical errors. The first error is to correct a sentence on page 23 of the original Order that reads, "The Commission finds that SCE&G's methodology to estimate future natural gas prices is." This sentence should be: "The Commission finds that SCE&G's methodology to estimate future natural gas prices is reasonable." The second error is on page 48 of the original Order, in the first line of Ordering Paragraph 11, "monthly per account DER Avoided Cost Components" should be "monthly per kWh DER Avoided Cost Components." Neither of these errors affects the substance of the Order, and the Order is otherwise as it was originally issued.

This matter comes before the Public Service Commission of South Carolina ("Commission") on the annual review of the fuel purchasing practices and policies of South Carolina Electric & Gas Company ("SCE&G" or "Company") and for a determination as to whether any adjustment in the fuel cost recovery factors is necessary and reasonable. The procedure followed by the Commission in this proceeding is set forth in S.C. Code Ann. § 58-27-865 (2015). Additionally, and pursuant to S.C. Code Ann. § 58-39-140 (2015), the Commission

SCE&G's winter peak can increase approximately 500 MW due to abnormal winter weather, reflecting the need for at least a 6% increase in reserve margin, winter over summer. Accordingly, Witness Lynch testified that SCE&G's 21% reserve margin is reasonable.

The Commission finds that SCE&G's proposal to set avoided capacity costs for its PR-1 and PR-2 rates at zero is reasonable at this time, in the absence of a viable alternative proposal being presented by any other party. Since last year's fuel proceeding, SCE&G has had a dramatic change in circumstances with 865 MW of solar capacity now under contract.[2] The Company's analysis shows that the addition of another 100 MW of solar has no effect on its resource plan and, therefore, does not affect SCE&G's future capacity needs. The Commission also finds that SCE&G's determination that it needs as much capacity in the winter as it does in the summer is appropriate. The calculation of generation required in the winter as presented by SCE&G, including a significant reserve margin, is accepted by the Commission at this time, but remains a subject upon which alternative calculation would be entertained in future fuel proceedings. Moreover, while the Commission accepts that there is significant winter need at this time, it is imperative that the Company take all appropriate measures to aggressively pursue economic demand side management and energy efficiency programs, targeted at reducing the winter peak and repositioning the Company to once again recognize an avoided capacity factor for solar generators. A generating resource has to provide capacity in the winter as well as in the summer in order to avoid the need for capacity and thereby have capacity value. The Commission therefore concludes that, because additional solar does not provide capacity during the winter period, the

[2] The Commission recognizes that this 865 MW of solar capacity under contract falls under the PR-2 rates established in Order Nos. 2016-297 and 2017-246, which provides a capacity payment for solar generation.

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BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NOS. 2019-185-E and 2019-186-E – ORDER NO. 2019-881(A)

JANUARY 2, 2020

In the Matter of: Docket No. 2019-185-E – South Carolina Energy Freedom Act (H.3659) Proceeding to Establish Duke Energy Carolinas, LLC's Standard Offer Avoided Cost Methodologies, Form Contract Power Purchase Agreements, Commitment to Sell Forms, and Any Other Terms or Conditions Necessary (Includes Small Power Producers as Defined in 16 United States Code 796, as Amended) – S.C. Code Ann. Section 58-41-20(A) and Docket No. 2019-186-E – South Carolina Energy Freedom Act (H.3659) Proceeding to Establish Duke Energy Progress, LLC's Standard Offer Avoided Cost Methodologies, Form Contract Power Purchase Agreements, Commitment to Sell Forms, and Any Other Terms or Conditions Necessary (Includes Small Power Producers as Defined in 16 United States Code 796, as Amended) – S.C. Code Ann. Section 58-41-20(A)	)	AMENDED ORDER APPROVING DUKE ENERGY CAROLINAS, LLC'S AND DUKE ENERGY PROGRESS LLC'S STANDARD OFFER TARIFFS, AVOIDED COST METHODOLOGIES, FORM CONTRACT POWER PURCHASE AGREEMENTS, AND COMMITMENT TO SELL FORMS

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Duke Witness Snider testified that DEC's projection of its first avoidable capacity need occurs in 2026, while DEP's first avoidable capacity need occurs in 2020, consistent with the Companies' 2019 IRP Update filings. He testified that accounting for the timing of needed capacity accurately values the capacity being delivered by the QF, consistent with PURPA's intent for the utility to estimate the costs that, but for purchase from the QF, would have otherwise been incurred by the utility and its customers. (Tr. Vol. 1, p. 58.14-17.) Last, he explained that under the levelized Schedule PP rate design, the avoided capacity payment is levelized to allow the QF to receive an avoided capacity payment in each year of the contract, as long as an actual capacity need exists at some point within the term of the avoided cost period. Put another way, the QF will receive capacity payments during each year of the contract, in order to credit the QF for future avoided capacity, so long as the utility has an avoidable capacity need within the avoided cost period. In conclusion, Witness Snider testified that the Companies' recognition of DEC's and DEP's need for capacity in the avoided capacity cost calculation is fair to both the Companies' customers and the QF. (Tr. Vol. 1, p. 17-18.)

ORS Witness Horii supported the method used by the Companies to calculate avoided capacity costs and stated that the method was one of the generally accepted methods for calculating PURPA avoided capacity costs used throughout the United States. (Tr. Vol. 2, p. 525.11.) He then testified that the lower avoided capacity rates calculated for DEC as compared to DEP were justified. In support of his position, Mr. Horii testified that the Companies' use of the recently filed 2019 IRPs was appropriate, reasonable, and transparent. In reviewing the Companies' load and resource balance

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approach for a utility to select a specific point in time or to "snap a chalk line" in determining its resource plan and for purposes of calculating avoided cost rates. (Tr. Vol. 2, p. 550-551.)

Commission Determination

The Commission finds that DEC and DEP have appropriately identified their first avoidable capacity needs, as presented in their 2019 IRP Updates. ORS's expert Witness Horii testified that the Companies' use of the recently filed 2019 IRPs was appropriate, reasonable, and transparent, and the Commission finds merit in his testimony. Moreover, in regard to DEC's recently announced plans to accelerate retirement of certain coal units, the Commission finds that for purposes of this proceeding, it is reasonable not to consider those retirements in determining the DEC's first year of capacity for several reasons. As evidenced by Duke Witness Snider, it is necessary for the utilities to "snap a line in chalk" at some point in time for purposes of resource planning and calculating the Companies' avoided cost rates. ORS's expert Witness Horii agrees, and testified that this is a reasonable approach. Moreover, as also testified to by Duke Witness Snider, these five coal units have yet to receive the necessary regulatory approvals to be included in DEC's IRP as "committed" to these earlier retirement dates.

SCSBA's argument in support of including the prospective earlier retirement of the five coal units in DEC's calculation of avoided capacity costs was based upon the premise that including these retirements would accelerate the Companies' first year of capacity need, thereby increasing the avoided capacity rates approved in this proceeding to be paid to QF. However, Duke Witness Snider testified that consideration of the

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accelerated retirement of these five coal plants would not only affect the Companies' avoided capacity rate, but also the system production cost of energy used to quantify the avoided energy rate. He explained that most likely, the aggregate effect of accounting for these accelerated coal unit retirements would be an overall decrease in the Companies' avoided cost rates, based on the likelihood that retiring older coal units would drive down the avoided energy rate more so than any increase in avoided capacity. ORS's expert Witness Horii agreed that Duke Witness Snider's contention was plausible, and SCSBA provided no evidence suggesting otherwise.

The Commission also recognizes and appreciates Power Advisory's recommendation that DEC be required to adjust forward its first year of capacity need to 2025 to reflect the likelihood that these accelerated coal unit retirements become part of the DEC's resource plans. *Power Advisory Report*, p. 21. However, as discussed above, the Commission finds that it is appropriate and necessary to "snap a chalk line" in developing inputs and assumptions for calculating avoided cost rates, that the loss in avoided energy payments may more than offset the gain in avoided capacity payments to QFs by recognizing the accelerated unit retirement date assumptions, that the acceleration in unit retirement dates is subject to future regulatory determinations prior to DEC actually committing in an integrated resource plan to retire the units, and that if shorter depreciable lives are approved, that DEC will appropriately reflect this change in its 2020 IRP.

Based upon all of the evidence on this issue, the Commission finds and concludes that DEC's identified first capacity need in 2026 and DEP's identified first capacity need

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in 2020 are reasonable and appropriate for purposes of calculating avoided costs in this proceeding.

In regard to SCSBA's proposal to require the Companies to assume excess QF capacity can be sold into a wholesale capacity market prior to DEC's first year of capacity need in 2026, the Commission finds and concludes that such a requirement would be inconsistent with PURPA and contrary to FERC precedent. As cited to by Duke Witness Snider, FERC has held that "an avoided cost rate need not include capacity unless the QF purchase will permit the purchasing utility to avoid building or buying future capacity...(the purchase) obligation does not require a utility to pay for capacity that it does not need." (Tr. Vol. 2, p. 630.54 (citing *City of Ketchikan*, 94 FERC ¶ 61,293 (2001) (citing *Order No. 69*, at P 30,865)).) FERC has also stated that "there is no obligation under PURPA for a utility to pay for capacity that would displace its existing capacity arrangements," as neither PURPA nor FERC's regulations require utilities to pay for the QF's capacity irrespective of the need for the capacity." *Id.* FERC also reiterated in the *Hydronamics* decision cited by Duke Witness Snider that "when the demand for capacity is zero, the cost for capacity may also be zero." (Tr. Vol. 2, p. 630.54 *citing Hydrodynamics, Inc.,* 146 FERC ¶ 61, 193, at ¶ 35 (2014).) PURPA therefore does not force a utility and its customers to pay for capacity that it otherwise does not need to serve customers. SCSBA Witness Burgess testified in his surrebuttal testimony that "he [does not] disagree with this position. (Tr. Vol. 2, p. 787.20.) The Power Advisory Report also generally accepts Duke's position on this issue. *Power Advisory Report*, p. 21. Therefore, the Commission agrees with Duke and the ORS that

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customers should not be required to pay solar QFs for capacity prior to the first year in which it is needed to serve system load and SCSBA's seemingly abandoned argument on this issue is rejected.

Based upon the foregoing and the entire record herein, the Commission finds the Companies' reliance upon the 2019 IRP Updates reasonable, and the resulting identified first years of need for DEC and DEP reasonable and appropriate as well.

EVIDENCE AND CONCLUSIONS SUPPORTING FINDINGS OF FACT NOS. 14-16

The evidence in support of these findings of fact are found in the verified Joint Application, pleadings, testimony and exhibits in theses Dockets, and the entire record in this proceeding.

Summary of the Evidence

ORS Witness Horii and SCSBA Witness Burgess each challenged certain aspects of Duke Witness Snider's calculation of avoided capacity cost under the peaker methodology. Duke Witness Snider testified that DEC and DEP each calculated their respective avoided capacity cost based on the cost of constructing new "peaker" combustion turbine ("CT") capacity. Duke relied upon publicly available CT cost data from the United States Energy Information Administration ("EIA"), which reflected the cost to build a single CT unit at a greenfield site. Duke then adjusted the EIA CT costs to recognize the economies of scale associated with shared land, buildings, roads, security, gas interconnection and other infrastructure for a 4-unit CT site, which Witness Snider testified aligned with the Companies' practice to build multiple units at a new site. (Tr. Vol. 1, p. 58.14-5.)